uPHONGOLO
MUNISIPALITEIT / MUNICIPALITY

Rig Korrespondensie aan:
DIE MUNISIPALE BESTUURDER

Address Correspondence to:
THE MUNICIPAL MANAGER

MUNISIPALE KANTOOR
MUNICIPAL OFFICE

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Your Ref.
U Verw: ______________________

Our Ref
Ons Verw: ______________________

18 August 2018

MFMA Coordinator
National Treasury
40 Church Square
Pretoria
0001

Attention: Linda Kruger

Dear Madam

SUBMISSION OF UNAUDITED ANNUAL FINANCIAL STATEMENTS FOR 2017/18 FINANCIAL YEAR

Please find enclosed hard copies of the following documents:

1. Unaudited Annual Financial Statements for 2017/18

Please note: All above documents have been emailed to **lgbigfiles@gmail.com.**

Yours faithfully

MR WM NXUMALO
MUNICIPAL MANAGER

uPHONGOLO Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

General Information

Nature of business and principal activities	Local Municipality
Members of Council	
Executive committee	Cllr BC Nhlabathi (Mayor)
	Cllr B Mvelase (Deputy Mayor)
	Cllr VG Masuku (Speaker)
	Cllr N Mntungwa
	Cllr KE Nxumalo
	Cllr EN Buthelezi
	Cllr IA Stokfeer
Members	Cllr PS Ntshangase
	Cllr Z Khumalo (Posthumous)
	Cllr FF Simelane
	Cllr NJ Mkhwanazi
	Cllr NT Mavimbela
	Cllr CB Ndlangamandla
	Cllr BC Gumbi
	Cllr CV Ndlangamandla
	Cllr NE Nxumalo
	Cllr D Nyawo
	Cllr JS Myeni
	Cllr DM Nkanjabanga
	Cllr SR Ntshangase
	Cllr JC Theron
	Cllr BR Shongwe
	Cllr VM Sikhosana
	Cllr MS Masuku
	Cllr GH Mpanza
	Cllr JW Buthelezi
	Cllr AZ Thabethe
	Cllr NP Mavuso
	Cllr TA Ntshangase
Grading of local authority	Grade 2 Low capacity
Chief Finance Officer (CFO)	Mr JV Nkosi
Registered office	61 Martin Street Pongola 3170
Business address	61 Martin Street Pongola 3170
Postal address	P O Box 191 Pongola 3170
Bankers	First National Bank
Auditors	Auditor General South Africa

General Information

Attorneys	Norton Rose Fulbright Mdledle and Associates
Preparer	The annual financial statements were externally compiled by: Dynamic Dashing Solutions Pty (Ltd)

Index

The reports and statements set out below comprise the annual financial statements presented to the council:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Municipal Infrastructure Grant
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the community and state for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 55, which have been prepared on the going concern basis, were approved and signed by the accounting officer on 31 August 2018.

Municipal Manager

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Receivables from non-exchange transactions	8	74 055 333	66 384 512
VAT receivable	9	2 965 429	1 544 615
Prepayments	7	8 413	49 261
Receivables from exchange transactions	10	9 059 050	7 688 712
Cash and cash equivalents	11	450 470	1 603 860
		86 538 695	**77 270 960**
Non-Current Assets			
Investment property	2	86 510 000	79 630 000
Property, plant and equipment	3	373 365 969	351 385 889
Intangible assets	4	598 780	262 013
Heritage assets	5	70 945	70 945
		460 545 694	**431 348 847**
Total Assets		**547 084 389**	**508 619 807**
Liabilities			
Current Liabilities			
Long-term loans	12	4 650 211	2 458 660
Payables from exchange transactions	16	26 058 447	36 235 739
Consumer deposits	17	2 149 309	2 507 818
Unspent conditional grants and receipts	13	10 875	2 211 354
Provisions	14	118 717	344 043
		32 987 559	**43 757 614**
Non-Current Liabilities			
Revenue received in advance		341 542	341 542
Long-term loans	12	3 013 813	2 646 901
Employee benefit obligation	6	3 187 920	3 115 367
Provisions	14	6 569 124	8 980 381
Long-service Awards	15	1 127 068	959 449
		14 239 467	**16 043 640**
Total Liabilities		**47 227 026**	**59 801 254**
Net Assets		**499 857 363**	**448 818 553**
Accumulated surplus		499 857 363	448 818 553

* See Note

uPHONGOLO Local Municipality
Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	47 558 522	44 507 885
Rental of facilities and equipment	19	747 533	745 718
Interest received (trading)		8 766 038	9 066 176
Licences and permits		1 369 765	1 360 951
Other income	20	2 616 645	2 046 778
Interest received - investment	21	1 357 451	1 292 521
Total revenue from exchange transactions		**62 415 954**	**59 020 029**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	35 294 654	31 402 246
Transfer revenue			
Government grants & subsidies	23	163 511 443	169 425 078
Fines, Penalties and Forfeits		1 390 770	202 274
Total revenue from non-exchange transactions		**200 196 867**	**201 029 598**
Total revenue		**262 612 821**	**260 049 627**
Expenditure			
Employee related costs	24	(74 013 395)	(70 715 687)
Remuneration of councillors	25	(9 371 468)	(8 264 176)
Contribution to provisions	26	(789 421)	(2 427 390)
Depreciation and amortisation	27	(13 548 654)	(9 189 796)
Impairment loss/ Reversal of impairments	28	(9 850 491)	(2 182 922)
Finance costs	29	(1 380 265)	(887 541)
Debt Impairment	30	(10 962 474)	(14 019 428)
Collection costs		-	(220 739)
Bulk purchases	31	(25 375 565)	(26 191 668)
Contracted services	32	(27 653 719)	(24 466 888)
Transfers and subsidies		(102 384)	(1 657 012)
General Expenses	33	(45 452 420)	(48 648 338)
Total expenditure		**(218 500 256)**	**(208 871 585)**
Operating surplus		**44 112 565**	**51 178 042**
Loss on disposal of assets and liabilities		(1 754 958)	(276 708)
Fair value adjustments		6 880 000	13 565 000
Actuarial gains/losses	6	(94 026)	-
		5 031 016	**13 288 292**
Surplus for the year		**49 143 581**	**64 466 334**

* See Note

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2016	**387 022 538**	**387 022 538**
Changes in net assets		
Surplus for the year	64 466 334	64 466 334
Total changes	64 466 334	64 466 334
Adjustments		
Correction of errors Note 39	(1 895 229)	(1 895 229)
Restated* Balance at 01 July 2017	**449 593 643**	**449 593 643**
Changes in net assets		
Surplus for the year	49 143 581	49 143 581
Total changes	49 143 581	49 143 581
Balance at 30 June 2018	**499 857 363**	**499 857 363**

* See Note

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		47 558 522	50 764 422
Grants		163 511 443	161 968 000
Interest income		10 123 489	10 358 697
Other receipts		4 733 651	4 153 446
		225 927 105	227 244 565
Payments			
Employee costs		(74 465 988)	(70 715 687)
Suppliers		(96 366 985)	(86 221 431)
Finance costs		(1 380 265)	(887 541)
Other payments		(2 646 150)	(1 657 011)
Councillors allowances		(9 371 468)	(8 264 176)
		(184 230 856)	(167 745 846)
Net cash flows from operating activities	34	**41 696 249**	**59 498 719**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(47 084 078)	(59 908 306)
Purchase of other intangible assets	4	(416 336)	-
Net cash flows from investing activities		**(47 500 414)**	**(59 908 306)**
Cash flows from financing activities			
Unspent conditional grants receipts		10 875	(5 478 839)
Repayment of borrowings		(3 104 422)	(243 236)
Repayments on installment sale		-	(3 399 019)
Proceeds on installment sale		2 558 463	1 360 345
Net cash flows from financing activities		**(535 084)**	**(7 760 749)**
Net increase/(decrease) in cash and cash equivalents		**(1 153 389)**	**(8 170 339)**
Cash and cash equivalents at the beginning of the year		1 603 860	9 774 199
Cash and cash equivalents at the end of the year	11	**450 471**	**1 603 860**

* See Note

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	44 985 550	-	**44 985 550**	47 558 522	**2 572 972**	47
Rental of facilities and equipment	717 476	(19 284)	**698 192**	747 533	**49 341**	47
Interest received (trading)	6 831 327	857 280	**7 688 607**	8 766 038	**1 077 431**	47
Licences and permits	1 512 801	(25 161)	**1 487 640**	1 369 765	**(117 875)**	47
Other income	1 802 132	608 293	**2 410 425**	2 616 645	**206 220**	
Interest received - investment	1 617 280	(146 641)	**1 470 639**	1 357 451	**(113 188)**	47
Total revenue from exchange transactions	**57 466 566**	**1 274 487**	**58 741 053**	**62 415 954**	**3 674 901**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	33 493 455	693 269	**34 186 724**	35 294 654	**1 107 930**	
Transfer revenue						
Government grants & subsidies	153 610 000	10 500 000	**164 110 000**	163 511 443	**(598 557)**	
Fines, Penalties and Forfeits	469 534	(2 965)	**466 569**	1 390 770	**924 201**	
Total revenue from non-exchange transactions	**187 572 989**	**11 190 304**	**198 763 293**	**200 196 867**	**1 433 574**	
Total revenue	**245 039 555**	**12 464 791**	**257 504 346**	**262 612 821**	**5 108 475**	
Expenditure						
Personnel	(76 223 566)	309 206	**(75 914 360)**	(74 013 395)	**1 900 965**	
Remuneration of councillors	(8 746 272)	(559 358)	**(9 305 630)**	(9 371 468)	**(65 838)**	
Contributions to provisions	-	-	-	(789 421)	**(789 421)**	
Depreciation and amortisation	(9 366 139)	(2 734 431)	**(12 100 570)**	(13 548 654)	**(1 448 084)**	47
Impairment loss/ Reversal of impairments	-	-	-	(9 850 491)	**(9 850 491)**	
Finance costs	(3 717 827)	2 717 493	**(1 000 334)**	(1 380 265)	**(379 931)**	
Debt Impairment	(10 729 797)	(4 186 874)	**(14 916 671)**	(10 962 474)	**3 954 197**	
Bulk purchases	(26 847 053)	-	**(26 847 053)**	(25 375 565)	**1 471 488**	
Contracted Services	(24 097 726)	854 976	**(23 242 750)**	(27 653 719)	**(4 410 969)**	
Transfers and subsidies	(5 264 634)	2 632 317	**(2 632 317)**	(102 384)	**2 529 933**	
General Expenses	(53 302 984)	(7 458 301)	**(60 761 285)**	(45 452 420)	**15 308 865**	
Total expenditure	**(218 295 998)**	**(8 424 972)**	**(226 720 970)**	**(218 500 256)**	**8 220 714**	
Operating surplus	**26 743 557**	**4 039 819**	**30 783 376**	**44 112 565**	**13 329 189**	
Loss on disposal of assets and liabilities	-	-	-	(1 754 958)	**(1 754 958)**	
Fair value adjustments	-	-	-	6 880 000	**6 880 000**	
Actuarial gains/losses	-	-	-	(94 026)	**(94 026)**	
	-	-	-	**5 031 016**	**5 031 016**	
Surplus before taxation	**26 743 557**	**4 039 819**	**30 783 376**	**49 143 581**	**18 360 205**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**26 743 557**	**4 039 819**	**30 783 376**	**49 143 581**	**18 360 205**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Receivables from non-exchange transactions	39 501 989	26 332 064	**65 834 053**	74 055 333	**8 221 280**	
VAT receivable	-	-	-	2 965 429	**2 965 429**	
Prepayments	-	-	-	8 413	**8 413**	
Receivables from exchange transactions	10 156 994	-	**10 156 994**	9 059 050	**(1 097 944)**	
Cash and cash equivalents	19 452 919	(14 448 118)	**5 004 801**	450 470	**(4 554 331)**	
	69 111 902	**11 883 946**	**80 995 848**	**86 538 695**	**5 542 847**	
Non-Current Assets						
Investment property	66 065 000	21 565 000	**87 630 000**	86 510 000	**(1 120 000)**	
Property, plant and equipment	423 824 235	54 081 332	**477 905 567**	373 360 795	**(104 544 772)**	
Intangible assets	349 507	(174 985)	**174 522**	349 510	**174 988**	
Heritage assets	70 945	-	**70 945**	70 945	-	
	490 309 687	**75 471 347**	**565 781 034**	**460 291 250**	**(105 489 784)**	
Total Assets	**559 421 589**	**87 355 293**	**646 776 882**	**546 829 945**	**(99 946 937)**	
Liabilities						
Current Liabilities						
Long-term loans	11 390 829	-	**11 390 829**	4 650 211	**(6 740 618)**	
Payables from exchange transactions	52 166 614	-	**52 166 614**	26 058 447	**(26 108 167)**	
Consumer deposits	1 724 277	1 000 000	**2 724 277**	2 149 309	**(574 968)**	
Unspent conditional grants and receipts	-	-	-	10 875	**10 875**	
Provisions	5 896 196	-	**5 896 196**	118 717	**(5 777 479)**	
	71 177 916	**1 000 000**	**72 177 916**	**32 987 559**	**(39 190 357)**	
Non-Current Liabilities						
Revenue received in advance	-	-	-	341 542	**341 542**	
Long-term loans	17 218 859	-	**17 218 859**	3 013 813	**(14 205 046)**	
Employee benefit obligation	-	-	-	3 187 920	**3 187 920**	
Provisions	7 781 115	-	**7 781 115**	6 569 124	**(1 211 991)**	
Long-service Awards	-	-	-	1 127 068	**1 127 068**	
	24 999 974	-	**24 999 974**	**14 239 467**	**(10 760 507)**	
Total Liabilities	**96 177 890**	**1 000 000**	**97 177 890**	**47 227 026**	**(49 950 864)**	
Net Assets	**463 243 699**	**86 355 293**	**549 598 992**	**499 602 919**	**(49 996 073)**	
Net Assets						
Reserves						
Accumulated surplus	463 243 699	86 355 293	**549 598 992**	499 602 919	**(49 996 073)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	65 345 558	13 827 404	**79 172 962**	47 558 522	**(31 614 440)**	
Grants	153 610 000	4 500 000	**158 110 000**	163 511 443	**5 401 443**	
Interest income	5 032 944	4 126 000	**9 158 944**	10 123 489	**964 545**	
Other receipts	4 501 943	-	**4 501 943**	4 733 651	**231 708**	
	228 490 445	**22 453 404**	**250 943 849**	**225 927 105**	**(25 016 744)**	
Payments						
Employee costs	(76 223 567)	309 206	**(75 914 361)**	(74 465 988)	**1 448 373**	
Suppliers	(97 304 000)	(18 110 916)	**(115 414 916)**	(96 366 985)	**19 047 931**	
Finance costs	(3 717 827)	2 717 827	**(1 000 000)**	(1 380 265)	**(380 265)**	
Remuneration of councillors	(8 746 272)	(559 358)	**(9 305 630)**	(9 371 468)	**(65 838)**	
Other payments	(5 264 634)	2 632 317	**(2 632 317)**	(102 384)	**2 529 933**	
	(191 256 300)	**(13 010 924)**	**(204 267 224)**	**(181 687 090)**	**22 580 134**	
Net cash flows from operating activities	**37 234 145**	**9 442 480**	**46 676 625**	**44 240 015**	**(2 436 610)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(36 303 950)	(10 500 000)	**(46 803 950)**	(47 088 246)	**(284 296)**	
Purchase of other intangible assets	-	-	-	(416 336)	**(416 336)**	
Net cash flows from investing activities	**(36 303 950)**	**(10 500 000)**	**(46 803 950)**	**(47 504 582)**	**(700 632)**	
Cash flows from financing activities						
Proceeds from borrowings	20 130 000	(12 530 000)	**7 600 000**	2 558 463	**(5 041 537)**	
Repayment of borrowngs	(11 390 829)	8 932 169	**(2 458 660)**	(3 104 422)	**(645 762)**	
Net cash flows from financing activities	**8 739 171**	**(3 597 831)**	**5 141 340**	**(556 834)**	**(5 698 174)**	
Net increase/(decrease) in cash and cash equivalents	9 669 366	(4 655 351)	**5 014 015**	(3 821 401)	**(8 835 416)**	
Cash and cash equivalents at the beginning of the year	9 778 640	(8 174 776)	**1 603 864**	1 603 860	**(4)**	
Cash and cash equivalents at the end of the year	**19 448 006**	**(12 830 127)**	**6 617 879**	**(2 217 541)**	**(8 835 420)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Accounting Policies

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below

The municipality changes an accounting policy only if the change :
(a) Is required by a standard of GRAP or
(b) Results in the financial statements providing reliable and more relevant information about the effects of transactions , other events or conditions on the performance or cash flow .
The following GRAP standards have been approved and effective to the municipality :

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies , Changes in Accounting Estimates and Errors
GRAP 4	The effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After Reporting Date
GRAP 16	Investment Property
GRAP 17	Property Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions , Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non - Cash generating Assets
GRAP 23	Revenue from Non- Exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash- Generating Assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 100	Discounted Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 106	Transfer of Function Between Entities Not Under common Control

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been adopted early by the municipality:

GRAP 20	Related Party Disclosures
GRAP 32	Service Concession Arrangements: Grantor
GRAP 34	Separate Financial Statements
GRAP 35	Consolidated Financial Statements
GRAP 36	Investments in Associates and Joint Ventures
GRAP 37	Joint Arrangements
GRAP 38	Disclosure of Interests in Other Entities
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
GRAP 110	Living and Non-living Resources

Impact on the municipality's financial statements once implemented:

None of these standards and interpretations are anticipated to have a material impact on the municipality's financial statements.

Management has considered all of the foregoing GRAP standards issued but not yet effective and effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements,

are disclosed below..

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Financial instruments held at amortised cost and at cost

The municipality assesses its financial instruments for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment testing

Financial assets:

As described in the accounting policy disclosure relating to financial instruments, the municipality considers the detailed impairment criteria as set out in GRAP 104: Financial Instruments. Management of the municipality is satistfied that the impairment of financial assets recorded during the year is appropriate.

Useful lives and impairment of Property, Plant and Equipment (PPE) and Intangible assets with indefinite useful lives:

As described in the accounting policy disclosure realting to PPE and intangible assets with indefinite useful lives, the municipality depreciates/amortises the aforementioned assets over their estimated useful lives, taking into account the residual values of the assets at the end of their useful lives. The useful lives and residual values of the assets are based on industry knowledge.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in the note.

Accounting Policies

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Accounting Policies

1.5 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Plant and machinery	Straight line	5 years
Furniture and fittings	Straight line	1-5 years
Motor vehicles		
• Specialised	Straight line	5 years
• Other vehicles	Straight line	5 years
Office equipment	Straight line	1-5 years
Land	Straight line	3 years
Infrastructure		
• Roads and paving	Straight line	20 years
• Electricity	Straight line	20-30 years
• Courseway bridges	Straight line	5 years
Community		
• Buildings	Straight line	30 years
• Halls	Straight line	30 years
• Libraries	Straight line	30 years
Finance lease assets		
• machinery and equipment	Straight line	5 years
• Motor vehicles	Straight line	5 years

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Accounting Policies

1.5 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	3 years

1.6 Intangible assets (continued)

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised.

1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long-term loan	Financial asset measured at amortised cost
Receivables from consumers	Financial asset measured at amortised cost
Bank and cash	Financial asset measured at cost
Short-term investment deposits	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Long-term loans	Financial liability measured at amortised cost
Creditors	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Accounting Policies

1.8 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Tax

Taxation

The uPhongolo Local municipality is exempt from tax in terms of section 10(1)(a) of the Income Tax Act.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Accounting Policies

1.10 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset excluding finance costs.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

1.12 Employee benefits (continued)
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Retirement Funds: The municipality contributes towards retirement benefits of its employees to the following finds:
Natal Joint Municipal Pension Fund;
Government Employees Pension Fund;
Municipal Gratuity Fund;
South African Local Authorites Pension Fund

Post employment medical care benefits:

The municipality provides post-retirement medical care benefits by subsidising the medical aid contributions to retired employees and their legitimate spouses. The entitlement of post-medical benefits is based on employees remaining in service up to the retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment. Post employment medical care benefits are accounted for in accordance to GRAP 25.

1.13 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:
- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

Accounting Policies

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.16 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises property rates in terms of the Municipal Property Rates Act and the municipal rates policy.

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met. The taxable event for property tax is the passing of the date on which the tax is levied.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Government grants

Grants and donations received, or receivable are recognised when the resources that have been transfered meet the criteria for recognition as an asset and there is not a corresponding liability in respect of the related conditions. Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, the liability is transferred to revenue as and when the conditions attached to the grant are met.

Unconditional grants are recognised as revenue in full when the asset is recognised, at an amount equal to the fair value of the asset received.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Accounting Policies

1.18 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that in not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.21 Budget information

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.22 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Accounting Policies

1.22 Related parties (continued)

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties that are not at arm's length or not in the ordinary course of business are disclosed.

1.23 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.24 Value Added Tax (VAT)

The municipality accounts for VAT on the accrual basis. The municipality is liable to account for VAT at the standard rate (15%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services,except where the supplies are specifically zero-rated in terms of section 11,exempted in terms of of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality acccounts for VAT on a monthly basis.

2. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	86 510 000	-	86 510 000	79 630 000	-	79 630 000

Reconciliation of investment property - 2018

	Opening balance	Fair value adjustments	Total
Investment property	79 630 000	6 880 000	86 510 000

Reconciliation of investment property - 2017

	Opening balance	Fair value adjustments	Total
Investment property	66 065 000	13 565 000	79 630 000

Pledged as security

No investment properties pledged as security

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

3. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	64 602 265	-	64 602 265	64 602 265	-	64 602 265
Buildings	59 450 849	(20 019 348)	39 431 501	35 252 015	(10 468 309)	24 783 706
Landfill site	5 505 095	-	5 505 095	5 505 095	-	5 505 095
Infrastructure	165 582 462	(44 037 594)	121 544 868	135 295 658	(33 822 522)	101 473 136
Other property, plant and equipment	27 746 276	(12 462 133)	15 284 143	25 654 597	(11 077 768)	14 576 829
AUC-Roads & Stormwater	26 060 160	-	26 060 160	45 001 233	-	45 001 233
AUC-Buildings	27 786 482	-	27 786 482	30 293 584	-	30 293 584
AUC-Electricity	73 151 455	-	73 151 455	65 150 041	-	65 150 041
Total	**449 885 044**	**(76 519 075)**	**373 365 969**	**406 754 488**	**(55 368 599)**	**351 385 889**

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	64 602 265	-	-	-	-	-	64 602 265
Buildings	24 783 706	-	-	24 198 834	(1 758 206)	(7 792 835)	39 431 499
Landfill site	5 505 095	-	-	-	-	-	5 505 095
Infrastructure	101 473 136	-	(96 589)	30 413 859	(8 334 057)	(1 911 481)	121 544 868
Other property, plant and equipment	14 576 829	5 918 148	(1 658 368)	-	(3 376 821)	(146 175)	15 284 144
AUC- Roads& storm water	45 001 233	11 472 785	-	(30 413 859)	-	-	26 060 159
AUC- Buildings	30 293 584	21 691 732	-	(24 198 834)	-	-	27 786 482
AUC- Electricity	65 150 041	8 001 414	-	-	-	-	73 151 455
	351 385 889	**47 084 079**	**(1 754 957)**	**-**	**(13 469 084)**	**(9 850 491)**	**373 365 967**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Prior period	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	65 541 478	-	(939 213)	-	-	-	-	64 602 265
Buildings	19 022 555	-	(555 125)	-	7 552 351	(1 184 475)	(51 600)	24 783 706
Landfill site	4 904 421	-	600 674	-	-	-	-	5 505 095
Infrastructure	73 332 772	250 000	(3 061 868)	(23 539)	38 305 365	(5 242 171)	(2 087 422)	101 473 136
Other property, plant and equipment	19 159 719	1 971 067	149 729	(253 169)	38 203	(2 675 654)	(43 900)	14 576 829
Buildings -AUC	28 397 986	9 486 152	-	-	(7 590 554)	-	-	30 293 584
Electricity-AUC	47 112 672	18 037 369	-	-	(38 305 365)	-	-	65 150 041
Roads-AUC	53 142 880	30 163 718	-	-	-	-	-	45 001 233
	310 614 483	**59 908 306**	**(3 805 803)**	**(276 708)**	**-**	**(9 102 300)**	**(2 182 922)**	**351 385 889**

Pledged as security

No assets are pledged as security:

3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2018

	Included within Roads	Included within Buildings	Included within Electricity	Total
Opening balance	45 001 233	30 293 584	65 150 041	140 444 858
Additions/capital expenditure	11 298 150	20 517 234	7 692 330	39 507 714
Transferred to completed items	(30 413 859)	(24 198 834)	-	(54 612 693)
	25 885 524	**26 611 984**	**72 842 371**	**125 339 879**

Reconciliation of Work-in-Progress 2017

	Included within Roads	Included within Buildings	Included within Electricity	Total
Opening balance	53 142 880	28 397 986	47 112 672	128 653 538
Additions/capital expenditure	30 163 718	9 486 152	18 037 369	57 687 239
Transferred to completed items	(38 305 365)	(7 590 554)	-	(45 895 919)
	45 001 233	**30 293 584**	**65 150 041**	**140 444 858**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
BUILDINGS	537 832	-
OTHER	1 474 680	-
INFRASTRUCTURE	2 186 555	-
	4 199 067	**-**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	1 041 704	(422 923)	598 780	625 367	(363 354)	262 013

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	262 013	416 336	(79 569)	598 780

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software	349 507	(87 494)	262 013

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Paintings and Artifacts	70 945	-	70 945	70 945	-	70 945

Reconciliation of heritage assets 2018

	Opening balance	Total
Paintings and artifacts	70 945	70 945

Reconciliation of heritage assets 2017

	Opening balance	Total
Paintings and artifacts	70 945	70 945

Pledged as security

No heritage assets pledged as security

6. Employee benefit obligation

Defined benefit plan

Medical Benefits:

An actuarial valuation has been performed by KPMG Services (Pty) Ltd to ascertain the municipality's liability in respect of the benefits to eligible employees.

The actuarial valuation is performed every two years.

The amounts recognised in the statement of financial position are as follows:

	2018	2017
Carrying value		
Opening balance	(3 115 367)	(3 025 320)
Interest costs	(289 798)	(278 329)
Benefits paid	237 178	199 909
Actuarial gain/loss	(19 933)	(11 627)
	(3 187 920)	**(3 115 367)**

Net expense recognised in the statement of financial performance

	2018	2017
Interest cost	289 798	278 329
Actuarial (gains) losses	(19 933)	11 626
	269 865	**289 955**

Figures in Rand	2018	2017

6. Employee benefit obligation (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.30 %	9.30 %
Salary inflation	8.30 %	8.30 %
% increase in medical inflation	12.00 %	12.00 %
% decrease in medical inflation	(10.10)%	(10.10)%
% increase in discount rate	12.40 %	12.40 %
% decrease in discount rate	(10.30)%	(10.30)%
Mortality less 2 years	9.40 %	9.40 %

Defined contribution plan

The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. As a result of the restrictions, some of the entities defined benefit plans have not been treated as defined benefit plans as defined by GRAP 25, but are rather accounted for as defined contribution plans. This is in line with the GRAP 25 exemption which states that where information required for proper defined benefit plan accounting is not available in respect of multi employer and state plans, these should be accounted for as defined contributions plan.

Pension benefits:

The Municipality's personnel are members of one of the pension funds listed below:

-Kwa-Zulu Natal Joint Municipal Pension Fund,
-Municipal Gratuity Fund,
-Municipal Employees Pension Fund,
-Government Employees Pension Fund

As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore, disclosure of further details such as actuarial assumptions cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained, the funds are all treated as defined contribution plans. an independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2018 actuarial valuations have not been released.

Superannuation Fund:

The interim valuation carried out on the Superannuation Fund as at March 2016 reflected the following:

-The memorandum account in respect of the pensioners was fully funded
-The ability in respect of active members was 100% funded

Retirement and Provident Fund:

The latest statutory valuation on the Retirement/Provident Fund (defined contribution) as at 31 March 2017 revealed the following:

-The memorandum account in respect of the pensioners was fully funded
-The ability in respect of active members was 100% funded

7. Prepayments

Prepayments	8 413	49 261

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

8. Receivables from non-exchange transactions

Traffic fines	238 966	202 274
Property rates	73 816 367	66 182 238
	74 055 333	**66 384 512**

9. VAT receivable

VAT refundable	2 965 429	1 544 615

The municipality accounts for VAT on the accrual basis. The municipality is liable to account for VAT at the standard rate of 15% (2017: 14%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services,except where the supplies are specifically zero rated in terms of section 11,exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

10. Receivables from exchange transactions

Gross balances		
Electricity	7 638 060	8 058 803
Refuse	82 997 544	71 391 958
Other	2 154 460	2 299 668
	92 790 064	**81 750 429**
Less: Allowance for impairment		
Electricity	(1 567 482)	(1 825 088)
Refuse	(80 215 531)	(70 525 913)
Other	(1 948 001)	(1 710 716)
	(83 731 014)	**(74 061 717)**
Net balance		
Electricity	6 070 578	6 233 715
Refuse	2 782 013	866 045
Other	206 459	588 952
	9 059 050	**7 688 712**
Electricity		
Current (0 -30 days)	3 886 045	3 477 017
31 - 60 days	558 331	1 017 634
61 - 90 days	88 527	223 113
91 - 120 days	64 571	133 208
121 - 365 days	308 435	537 985
> 365 days	1 164 669	844 758
	6 070 578	**6 233 715**
Refuse		
Current (0 -30 days)	89 120	31 099
31 - 60 days	27 344	8 778
61 - 90 days	24 422	7 939
91 - 120 days	24 047	7 787
121 - 365 days	192 131	66 074
> 365 days	2 424 949	744 368
	2 782 013	**866 045**

Figures in Rand	2018	2017

10. Receivables from exchange transactions (continued)

Other		
Current (0 -30 days)	7 532	262 305
31 - 60 days	3 019	7 056
61 - 90 days	34 018	8 638
91 - 120 days	1 765	3 325
121 - 365 days	11 623	39 995
> 365 days	148 502	267 633
	206 459	**588 952**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(74 061 717)	(60 042 289)
Contributions to allowance	(9 669 297)	(14 019 428)
	(83 731 014)	**(74 061 717)**

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 674	1 615
Bank balances	390 243	896 426
Short-term deposits	58 556	705 819
	450 473	**1 603 860**

The municipality holds a facility account relating to the use of fleet services with a value of R 500 000 and a vehicle asset fiinance (LCF) of R 11 200 000 .

The municipality had the following bank accounts

Account number / description	**Bank statement balances**		**Cash book balances**	
	30 June 2018	**30 June 2017**	**30 June 2018**	**30 June 2017**
First National Bank- 62027530858 (Primary bank account)	390 244	896 427	390 244	896 427
First National Bank-62375342377	-	4	-	4
First National Bank-62377992104	-	5	-	5
First National Bank-62380902017	-	3 371	-	3 371
First National Bank-62389553085	-	5	-	5
First National Bank-62389564024	-	9	-	9
First National Bank-62389585286	-	9	-	9
First National Bank-62389586507	7 458	7 458	7 458	7 458
First National Bank-62404561377	-	219	-	219
First National Bank-62404287345	-	80	-	80
First National Bank-62658357001	4 874	167 891	4 874	167 891
First National Bank-62305239718	-	490 490	-	490 490
First National Bank-74275780911	44 871	32 744	44 871	32 744
First National Bank-62596797559	4	394	4	394
First National Bank-62253771896	-	298	-	298
First National Bank-62230436405	-	1 494	-	1 494
Standard Bank-068686234-003	1 348	1 347	1 348	1 347
Cash on hand	1 674	1 615	1 674	1 615
Total	**450 473**	**1 603 860**	**450 473**	**1 603 860**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Long-term loans

Non-current liabilities	3 013 813	2 646 901
Current liabilities	4 650 211	2 458 660
	7 664 024	**5 105 561**

Standard Bank:

The municipality has a loan with Standard Bank for the purchase of property, plant and equipment. The loan bears interest at an average effective borrowing rate of 9.75% per annum. The loan is repayable on a monthly basis with final payment due on 30 April 2019.

Fleet Horizon Solutions:

The municipality has a loan with Fleet Horizon for the purchase of property, plant and equipment. The loan bears interest at an average effective borrowing rate of 15.5% per annum. The loan is repayable on a monthly basis with final payment due on 30 April 2021.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Administration Capacity Building Grant	-	205 686
Integrated Electrification Reds Grant	-	98 000
Tourism Candover Grant	-	290 862
Strategic Support Grant	-	93 848
Synergetic Partnership Grant	-	123 104
Housing Community Gardens Grants	-	72 864
Planning and Development Grant	-	47 621
Municipal Development Planning and Capacity Building Grant	-	100 000
Integrated National Electrification Programme Grant	-	1 494
Pound Grant	-	1 000 000
Sub-rank Facility Grant	3 417	3 417
Small Town Improvement Grant	7 458	7 458
Sports Facility Grant	-	167 000
	10 875	**2 211 354**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

14. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Utilised during the year	Change in discount factor	Total
Non current:Environmental rehabilitation	8 980 381	-	(2 411 257)	6 569 124
Current: Bonuses	344 043	(225 326)	-	118 717
	9 324 424	**(225 326)**	**(2 411 257)**	**6 687 841**

	2018	2017
Non-current liabilities	6 569 124	8 980 381
Current liabilities	118 717	344 043
	6 687 841	**9 324 424**

Current provisions

	2018	2017
Bonus	118 717	344 042

Bonus provision: The provision is to provide for perfomance bonuses of the section 56 employees. Performance bonuses are paid one year in arrears as the assessment of eligible employees takes place after year end.

Non-current provisions

	2018	2017
Rehabilitation of landfill site	6 569 124	8 980 381

Landfill site: The rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal at the time of closure. The value of the provision is based on the present value of the expected future costs to rehabilitatee the site.

Rehabilitation costs were calculated based on the following assumptions:

Assumptions	**Percentage-2018**	**Percentage-2017**
Annual inflation	6.60 %	6.40 %
Discount rate	6.60 %	6.40 %
	- %	**- %**

The landfill site is 5 hectares and the area expected to be rehabilitated is 3 hectares.The estimated closure date is 2035/36.

The estimated closure date has changed from the previous financial year by two years and the estimated closure date is now 2035/36.

15. Long-service Awards

Employees who acheive 20 years service have a choice of 20 days paid leave(once off) or encashment of leave.
Employees who acheive 30 years service have a choice of 30 days paid leave(once off) or encashment of leave.
Employees who acheive 35 years service have a choice of 50 days paid leave(once off) or encashment of leave.

The abovementioned leave is granted in addition to the annual leave entitlement and maximum accumulation granted in terms of the National Conditions of Service. The leave may be taken, converted to cash fully or partially or accumulated. The leave is only applicable to those employees who have achieved the stated years of service after the effective date of these conditions.

The provision is an estimate of the long service award based on the monthly salaries rate as at 30 June 2018. It has been assumed that the staff turnover rate will be insignificant based on historical data.The provision has not been discounted based on the fact that the interest cost is insignificant and the fair presentation of the provision is not materially affected.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

15. Long-service Awards (continued)

The valuation of the liability was performed in ine with GRAP 25: Employee benefits by KPMG Services (Pty) Ltd as at 30 June 2017 and included projections for 2018. Given that the assumptions used have not changed materially, the projected values for 2018 as per the 2017 report have been used.

The actuarial valuation is performed every two years

Changes in the present value of the long-service obligation are as follows:

Opening balance	959 449	735 074
Service cost	116 961	101 993
Interest cost	87 063	67 627
Actuarial gains and losses	113 960	54 755
Benefits paid	(150 365)	-
	1 127 068	**959 449**

Net expense recognised in the statement of financial performance

Service cost	116 961	101 993
Interest cost	87 063	67 627
Actuarial gain/loss	113 960	54 775
	317 984	**224 395**

Principal actuarial assumptions used:	**Percentage- 2018**	**Percentage- 2017**
Discount rate	9.30 %	9.30 %
Salary inflation rate	8.30 %	8.30 %
% decrease in discount rate	(12.20)%	(12.20)%
% increase in discount rate	14.60 %	14.60 %
% decrease in salary inflation	(12.00)%	(12.00)%
% increase in salary inflation	14.10 %	14.10 %
	- %	**- %**

16. Payables from exchange transactions

Trade payables	12 960 961	19 329 420
Retentions	4 668 047	5 295 466
Staff leave accrual	5 224 868	6 113 517
Accrued bonus	2 133 544	1 833 630
Payroll deductions	378 288	2 606 723
Deposits-Other	692 739	657 907
Workmens compensation assurance	-	399 076
	26 058 447	**36 235 739**

17. Consumer deposits

Electricity	2 149 309	2 507 818

18. Service charges

Sale of electricity	37 473 261	35 130 129
Refuse removal	10 085 261	9 377 756
	47 558 522	**44 507 885**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

19. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	747 533	745 718

20. Other income

NPA fees	787 764	794 991
Electricity connection and reconnection fees	8 718	56 322
Building plans	20 115	16 218
Burial fees	99 690	108 607
Transport subsidy	285 285	487 183
Sign boards	65 396	62 207
Tender document fees	74 815	195 216
Certificate clearance and validation	14 206	21 932
Dumping fees	7 667	9 940
Other	1 252 989	294 162
	2 616 645	**2 046 778**

21. Interest received - investment

Interest revenue		
Current account	225 277	89 878
External Investments	1 132 174	1 202 643
	1 357 451	**1 292 521**

22. Property rates

Rates received

Residential	7 817 920	7 305 936
Commercial	8 858 557	8 291 671
State	9 637 553	10 078 619
Other	8 980 624	5 726 020
	35 294 654	**31 402 246**

Valuations

Residential	739 553 000	711 914 000
Commercial	492 670 000	482 450 000
State	507 842 000	442 857 000
Municipal	109 919 000	92 671 000
Other	1 663 031 600	1 615 869 600
	3 513 015 600	**3 345 761 600**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

23. Government grants and subsidies

Operating grants		
Equitable share	107 145 949	97 800 000
Expanded Public Works Programme Grant	4 678 000	3 021 000
Financial Management Grant	1 900 000	1 825 000
Provincialisation of Libraries Grant	1 002 000	965 000
Community Libraries Services Grant	376 000	358 000
Municipal Infrastructure Grant	957 625	1 512 099
Pound Grant	-	(509 510)
Sports Facility Grant	167 000	167 000
	116 226 574	**105 138 589**

Capital grants		
Municipal Infrastructure Grant	32 783 375	40 131 140
Integrated National Electrification Programme Grant	9 001 494	17 998 506
Massification Electricity Programme	-	3 043 642
Small Town Improvement Grant	-	420 764
Sub-Rank Facility Grant	-	460 375
Imbube Cultural Village Grant	5 500 000	2 232 062
	47 284 869	**64 286 489**
	163 511 443	**169 425 078**

Equitable Share

Financial Management Grant

Current-year receipts	1 900 000	1 825 000
Conditions met - transferred to revenue	(1 900 000)	(1 825 000)
	-	-

Municipal Infrastructure Grant

Current-year receipts	33 741 000	42 136 000
Conditions met - transferred to revenue	(33 741 000)	(41 643 239)
Roll over denied- Amount paid back	-	(492 761)
	-	-

Administration Capacity Building Grant

Balance unspent at beginning of year	-	205 686
Correction prior period	-	(205 686)
	-	-

Integrated Electrification Reds Grant

Current-year receipts	-	98 000
Correction prior period	-	(98 000)
	-	-

Tourism Candover Grant

Balance unspent at beginning of year	-	290 862
Correction prior period	-	(290 862)

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

23. Government grants and subsidies (continued)

	-	-

Strategic Support Grant

	2018	2017
Balance unspent at beginning of year	-	93 848
Correction prior period	-	(93 848)
	-	-

Synergetic Partnership Grant

	2018	2017
Balance unspent at beginning of year	-	123 104
Correction prior period	-	(123 104)
	-	-

Housing Community Gardens Grant

	2018	2017
Balance unspent at beginning of year	-	72 864
Correction prior period	-	(72 864)
	-	-

Planning and Development Grant

	2018	2017
Balance unspent at beginning of year	-	47 621
Correction prior period	-	(47 621)
	-	-

Municipal Development Planning and Capacity Building Grant

	2018	2017
Balance unspent at beginning of year	-	100 000
Correction prior period	-	(100 000)
	-	-

Integrated National Electrification Progamme Grant

	2018	2017
Balance unspent at beginning of year	1 494	-
Current-year receipts	9 000 000	18 000 000
Conditions met - transferred to revenue	(9 001 494)	(17 998 506)
	-	**1 494**

Pound Grant

	2018	2017
Balance unspent at beginning of year	1 000 000	490 490
Adjustments and transfers	-	509 510
Adjustments and transfers to Imbube cultural grant	(1 000 000)	-
	-	**1 000 000**

Sub-rank Facility Grant

	2018	2017
Balance unspent at beginning of year	3 417	463 792
Conditions met - transferred to revenue	-	(460 375)
	3 417	**3 417**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

23. Government grants and subsidies (continued)

Imbube Cultural Village Grant

Balance unspent at beginning of year	-	2 232 062
Current-year receipts	4 500 000	-
Transfer from Pound Grant	1 000 000	-
Conditions met - transferred to revenue	(5 500 000)	(2 232 062)
	-	-

Small Town Improvement Grant

Balance unspent at beginning of year	7 458	428 222
Conditions met - transferred to revenue	-	(420 764)
	7 458	**7 458**

Sports Facility Grant

Balance unspent at beginning of year	167 000	-
Current-year receipts	-	334 000
Conditions met - transferred to revenue	(167 000)	(167 000)
	-	**167 000**

Provincialisation of Libraries Grant

Current-year receipts	1 002 000	965 000
Conditions met - transferred to revenue	(1 002 000)	(965 000)
	-	-

Community Library Services grant

Current-year receipts	376 000	358 000
Conditions met - transferred to revenue	(376 000)	(358 000)
	-	-

Expanded Public Works Programme Grant

Current-year receipts	4 678 000	3 021 000
Conditions met - transferred to revenue	(4 678 000)	(3 021 000)
	-	-

Massification Electricity Programme

Balance unspent at beginning of year	-	3 043 642
Conditions met - transferred to revenue	-	(3 043 642)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

24. Employee related costs

Salaries and wages	51 422 554	48 960 510
Performance and other bonuses	3 742 860	3 596 733
Medical aid - company contributions	2 392 290	2 435 189
UIF - company contributions	427 620	377 828
Workmens Compensation Assurance	351 737	399 076
Skills Development Levy	666 289	581 921
Standby allowance	505 729	361 035
Leave pay provision charge	-	90 046
Remote allowance	172 650	359 018
Group Life Insurance - company contributions	45 032	65 634
Pension and Provident Fund	5 954 883	5 390 273
Car allowances	3 715 625	4 019 465
Overtime payments	2 894 591	2 857 855
Acting allowances	1 242 564	661 863
Cellphone allowance	197 316	126 518
Housing benefits and allowances	255 989	408 170
Industrial Council	25 666	24 553
	74 013 395	**70 715 687**

Remuneration of Municipal Manager

Annual Remuneration	779 390	1 012 234
Allowances	657 063	229 623
Contributions to UIF, Medical and Pension Funds	20 385	16 909
	1 456 838	**1 258 766**

Remuneration of Chief Finance Officer

Annual Remuneration	640 392	831 097
Allowances	557 133	223 196
Performance Bonuses	30 501	61 689
Contributions to UIF, Medical and Pension Funds	125 971	15 104
	1 353 997	**1 131 086**

Remuneration of Technical Services Director

Annual Remuneration	361 925	762 651
Allowances	273 890	222 032
Contributions to UIF, Medical and Pension Funds	6 871	14 091
	642 686	**998 774**

Remuneration of Community Services Director

Annual Remuneration	799 325	831 097
Allowances	382 438	117 405
Contributions to UIF, Medical and Pension Funds	25 836	11 960
	1 207 599	**960 462**

Remuneration of Corporate Services Director

Annual Remuneration	632 966	910 657
Allowances	184 824	72 532
Contributions to UIF, Medical and Pension Funds	45 660	13 582
	863 450	**996 771**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

25. Remuneration of councillors

Mayor	493 181	453 661
Deputy Mayor	403 507	368 350
Executive Committee Members	1 143 175	1 040 363
Speaker	403 516	367 989
Councillors	6 928 089	6 033 813
	9 371 468	**8 264 176**

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are not full-time. The Mayor, Speaker and Deputy Mayor are provided with an office and secretarial support at the cost of the Council.

The Mayor,Deputy Mayor and speaker each have the use of separate Council owned vehicles for official duties.

The Mayor, Deputy Mayor and speaker each have three full-time bodyguards.

The municipality has 28 part time councillors, 1 of the part time councillors is the chairperson of a section 79 committee.

26. Contribution to provisions

Contribution to leave provision	452 593	1 626 082
Contribution to landfill provision	336 828	801 308
	789 421	**2 427 390**

27. Depreciation and amortisation

Property, plant and equipment	13 469 085	9 102 302
Intangible assets	79 569	87 494
	13 548 654	**9 189 796**

28. Impairment loss/reversal

Impairments		
Property, plant and equipment	9 850 491	2 182 922

29. Finance costs

Borrowings	590 979	578 942
South African Revenue Services	-	242 116
Suppliers	422 123	66 483
	1 013 102	**887 541**

30. Debt impairment

Debt impairment	10 962 474	14 019 428

31. Bulk purchases

Electricity	25 375 565	26 191 668

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

32. Contracted services

Presented previously		
Security services	2 887 083	5 714 207
Financial and ICT systems support	7 065 075	4 269 640
Refuse removal and landfill site maintenance	8 920 870	4 811 091
Electricity services	323 561	572 221
Maintenance of parks and gardens	8 457 130	9 099 729

33. General expenses

Advertising	1 005 548	363 681
Auditors remuneration	1 564 070	1 725 313
Bank charges	172 219	184 784
Cleaning	99 037	271 150
Audit commitee fees	192 069	268 559
Consulting and professional fees	2 854 057	3 875 768
Legal expenses	1 037 930	351 234
Electricity and refuse	430 972	616 924
Expanded Public Works Programme	2 498 702	3 712 972
Insurance	1 206 274	1 136 846
Licence fees	308 864	765 630
Fuel and oil	1 605 080	1 698 926
Postage and courier	61 587	4 132
Printing and stationery	720 785	793 722
Public participation	3 532 271	3 693 756
Refreshments	23 706	329 417
Repairs and maintenance	4 254 494	4 697 873
Rental of office equipment	1 046 653	1 113 553
Security- cash banking	74 300	132 976
Subscriptions and membership fees	296 020	164 510
Telephone and fax	1 451 196	1 378 618
Transport	83 197	516 309
Training	1 928 393	1 016 971
Travel and subsistence	9 009 455	7 813 991
Uniforms and overalls	486 968	388 359
Ward upliftment and LED projects	2 403 833	2 976 925
Water and sanitation	665 510	201 805
Hire of equipment	874 759	2 872 458
Other expenses	5 564 471	5 581 176
	45 452 420	**48 648 338**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

34. Cash generated from operations

Surplus	49 143 581	64 466 334
Adjustments for:		
Depreciation and amortisation	13 548 654	9 189 796
Gain on sale of assets and liabilities	1 754 958	276 708
Fair value adjustments	(6 880 000)	(13 565 000)
Impairment deficit	9 850 491	2 182 922
Debt impairment	10 962 474	14 019 428
Movements in retirement benefit assets and liabilities	72 553	90 046
Movements in provisions	(2 636 583)	1 137 668
Changes in working capital:		
Receivables from exchange transactions	-	(13 021 040)
Consumer debtors	(12 332 812)	-
Other receivables from non-exchange transactions	(7 670 821)	(12 870 387)
Prepayments	40 848	496 096
Revenue received in advance	-	(114 592)
Payables from exchange transactions	(10 177 292)	3 274 013
VAT	(1 420 814)	3 153 386
Unspent conditional grants and receipts	(2 200 479)	-
Consumer deposits	(358 509)	783 341
	41 696 249	**59 498 719**

35. Commitments

Authorised capital expenditure

Approved and contracted for:		
• Property, plant and equipment	79 138 280	38 669 270
Total capital commitments		
Approved and contracted for	79 138 280	38 669 270

Authorised operational expenditure

Approved and contracted for:		
• Operating commitments	9 279 952	-
Total operational commitments		
Approved and contracted for	9 279 952	-

Total commitments

Total commitments		
Authorised capital expenditure	79 138 280	38 669 270
Authorised operational expenditure	9 279 952	-
	88 418 232	**38 669 270**

The committed expenditure has been disclosed exclusive of VAT. This committed capital expenditure relates to property, plant and equipment as well as operating expenditure will be financed by government grants.

Figures in Rand	2018	2017

36. Contingencies

Contingent liabilities

Mayibuye Earthworks cc		
Breach of contract	-	2 062 915
Impala Water Users Association		
Use of private property without agreement	-	5 606
Road user		
Damages to vehicle	-	92 163
Lekwa Consulting Engineers		
Services rendered but not paid for	-	612 176
Isibili Developments		
Balance of contract value	-	617 464
Trust and trustees		
Enforcement of sale agreement concluded with the municipality	22 654 755	43 000 000
PON141		
Disconnection error	55 369	-
PON149		
Tax Bill	58 351	-
	22 768 475	**46 390 324**

Contingent assets

Elam Investments		
Payment made for accommodation during SALGA games	164 480	164 480
Lessor- rental agreements		

37. Related parties

Relationships

Key Management personnel	
Councillors	Refer to Remuneration of councillors note
Senior managers	Refer to Employee related costs note

There were no related party transactions that were not at arms length during the finacial period.

38. Prior period error

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Vat receivable		
Audited balance	-	7 208 521
Reclassified to provisions	-	(5 664 139)
	-	**1 544 382**

Finance lease liability		
Audited balance	-	5 105 560
Reclassified to Long-term loans	-	(5 105 560)
	-	-

38. Prior period error (continued)

Receivables from non-exchange transactions		
Audited balance	-	66 661 776
Reclassified to receivables from exchange transactions	-	(493 037)
interest received not accrued	-	(304 391)
	-	**65 864 348**

Recivables from exchange transactions		
Audited balance	-	7 411 447
Reclassified from non-exchange transactions	-	(113 965)
	-	**7 297 482**

Unspent Conditional grants and recipts		
Audited Balance	-	2 211 354
Unspent conditional grants and recipts not accrued in 2016/17	-	1 031 985
	-	**3 243 339**

Payables from exchange transactions		
Audited balance	-	36 235 739
Prior year refund of hall not accrued in 2016/2017	-	(1 290)
	-	**36 234 449**

Accumulated surplus		
Audited balance	-	451 888 840
Expenses not accrued	-	(896 145)
	-	**450 992 695**

Employee cost		
Audited	-	70 715 687
Basic salary	-	24 253
	-	**70 739 940**

Finance Charge		
Finance cost not accrued in 2016/17	-	887 541
	-	158 235
	-	**1 045 776**

Creditors		
Audited balance	-	36 246 437
Finance cost not accrued	-	10 698
	-	**36 257 135**

Depreciation		
Audited balance	-	6 426 646
	-	3 623 407
	-	**10 050 053**

Traffic fines recievables		
Audited balance	-	1 332 050
Traffic fines	-	(1 119 776)
	-	**212 274**

Notes to the Annual Financial Statements

Figures in Rand

38. Prior period error (continued)

Revenue

Audited balance	-	202 274
Revenue not accrued in 2016/17	-	1 119 776
	-	**1 322 050**

39. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by council.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Cash and cash equivalents	450 178	1 603 862
Trade and other receivables from exchange transactions	9 059 050	7 688 712
Trade and other receivables from non-exchange transactions	74 055 333	66 384 512

Market risk:

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

40. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

41. Events after the reporting date

There were no material non-adjusting events that came to the attention of management after the reporting date:

42. Unauthorised expenditure

Opening balance	16 177 098	13 971 143
Current year expenditure	-	2 205 955
	16 177 098	**16 177 098**

43. Fruitless and wasteful expenditure

Opening balance	1 123 416	342 341
Current year - Interest and penalties	422 123	781 075
	1 545 539	**1 123 416**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

44. Irregular expenditure

Opening balance	82 775 143	24 429 755
Prior year irregular expenditure identified in the current period	-	16 987 331
Irregular Expenditure - current year:	-	41 358 057
Awards to persons in service of the state	695 701	-
Acting period exceeding legislated timeframe	93 355	-
Overtime exceptions	145 886	-
SCM processes not followed	64 201	-
	83 774 286	**82 775 143**

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	500 000
Current year subscription / fee	164 467	-
Amount paid - current year	(115 227)	(500 000)
	49 240	**-**

Electricty losses

Amount paid - current year	1 570 259	4 855 083
Percentage electricity losses	6	16
	1 570 265	**4 855 099**

The municipality purchased 28 943 327 units (2017: 29 380 000 units) from Eskom and sold 27 152 291 units (2017: 24 606 332 units) to consumers. This represents a loss of 1 791 036 units (2017: 4 855 083 units) which equates to R1 570 259 (2017: R4 255 627) and translates to a percentage loss of 6.2% (2017: 16.2%). The electricity losses are as a result of technical losses and illegal conncetions.

Audit fees

Opening balance	21 572	-
Current year subscription / fee	1 563 214	1 725 313
Amount paid - current year	(1 584 786)	(1 703 741)
	-	**21 572**

PAYE and UIF

Opening balance	2 158 941	771 879
Current year subscription / fee	13 897 976	-
Amount paid - current year	(14 132 218)	-
Adjustment-movement	-	1 387 062
	1 924 699	**2 158 941**

Pension and Medical Aid Deductions

Opening balance	1 002 797	1 054 397
Current year subscription / fee	13 975 309	-
Amount paid - current year	(13 335 304)	-
Adjustment-movement	-	(51 600)
	1 642 802	**1 002 797**

Figures in Rand	2018	2017

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018 and 30 June 2017

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Section 36 Deviations		
Sole supplier - s36(1)(a)(ii)	108 949	-
Impractical or impossible to follow the official procurement process - s36(1)(a)(v)	1 200	1 858 920
	110 149	**1 858 920**

47. Budget

Material differences was considered for variances above 10% in the budget statement.

Revenue

Interest earned on outstanding debtors increased mainly due to increased level of outstanding receivables.

Fines revenue billed increased during the year due to law enforcement and complying with the requirements of IGRAP 1 .

Expenditure

Depreciation and amortisation increased due to completed projects that were realised from Work- in- progrees.

Repairs and maintenance decreased due to the municipality is investing on new capital assets in order address the badlogs.

Finance changes increased due to SARS penalties that were incurred during the year.

Debt impairment decreased due to the qualifying indigents households that were excluded in the calculation of the provision.

The increase in contracted services is attributable to increased VIP protection expenditure, Implementation of MSCOA regulation, grass-cutting services.

Transfers and subsidies decreased due to Council resolved to stop providing the free basic services until the indigent register is finalised.

General expenses decreased due the implementation of the cost cutting measures and application of circula 82 (cost containtment)